REQUIRED SUPPLEMENTAL STEWARDSHIP INFORMATION

Statement of Social Insurance Trust Fund Status
Railroad Retirement Program

Financing

Benefits paid from the Railroad Retirement (RR) and Social Security Equivalent Benefit (SSEB) Accounts are financed by the following sources of income:

1. Payroll tax – Employers and employees pay a tax at the social security rate on earnings up to the social security, or tier 1, earnings limit, as shown in Table 1. (The hospital insurance portion of this rate is not subject to an earnings limit.) This tax is called the tier 1 tax. In addition, employers and employees pay a tier 2 tax on earnings up to the tier 2 earnings limit (see Table 1). The tier 2 earnings limit is what the social security limit would be if the 1977 social security amendments had not been enacted.

2. Income tax – The tax on tier 1 benefits up to the social security level is credited to the SSEB Account and then to social security through the financial interchange. Revenue derived from taxing RR Account benefits (tier 2 and the excess of tier 1 over the social security level) is transferred to the RR Account.

3. Work-hour tax – Part of the tax collected for the Railroad Retirement Supplemental Account, which is computed in terms of cents per hour worked, is transferred to the RR Account. This tax has been repealed for calendar years after 2001.

4. Investment income.

5. The financial interchange with the social security system – This arrangement established between the railroad retirement and social security systems places the social security trust funds in the same financial position they would have been if railroad employment had always been covered under social security. Under the financial interchange, the railroad retirement system gives the social security system the taxes social security would have collected, and the social security system gives the railroad retirement system the additional benefits social security would have paid to railroad workers and their families over what it actually pays them.

6. Advances from general revenues related to certain features of the financial interchange – Financial interchange transfers are made in a lump sum for a whole fiscal year in the June following the end of that fiscal year. Railroad retirement receives interest on this money, so this practice does no long-term harm to the financial system of the railroad retirement system. The lag in the transfers, however, could cause short-term cash flow problems. In order to avoid the cash flow problems caused by this lag, the 1983 Solvency Act provided for monthly loans to railroad retirement from U. S. Treasury general funds. Each loan is equal to the transfer the Railroad Retirement Board estimates railroad retirement would have received in the preceding month, with interest, if the financial interchange with social security were on an up-to-date basis. Railroad retirement must repay these loans when it receives the transfer from social security against which the money was advanced.

Benefits

Railroad retirement benefits are paid from four accounts: the Railroad Retirement[1] (RR) Account, the Social Security Equivalent Benefit (SSEB) Account, the Railroad Retirement Supplemental (RRS) Account, and the Dual Benefits Payments Account. The RRS Account will be eliminated in calendar year 2002, and the account balance will be transferred to the NRRIT.

Benefits paid from the RR and SSEB Accounts consist mainly of monthly payments to retired or disabled employees, their spouses, and survivors. The accounts also pay out relatively small amounts in lump sums to employees and their survivors in certain cases. The monthly benefits consist of two components, known as tier 1 and tier 2**.** Beginning in calendar year 2002, supplemental annuity benefits will be paid from the RR Account. The historical ages at which employee age annuitants may begin to receive either full or reduced benefits are shown in Table 1.

The gross tier 1 benefit is generally equivalent to the benefit that the social security system would pay if all of the employee's earnings (railroad and non-railroad) had been covered under the Social Security Act. Any benefit actually received from social security is subtracted to determine the net tier 1 benefit payable. Tier 2 is comparable to a private pension. After the death of a railroad worker, eligible spouses and children receive survivor benefits. Expenses required to administer the program are paid from the accounts.

A railroad retiree may receive a supplemental annuity in addition to his regular annuity if he has at least 12 months of railroad service in the 30 months preceding retirement, and he has attained age 65 with 25 years of railroad service or age 60 with 30 years of railroad service. In addition, he must have worked in the industry before October 1, 1981. No cost-of-living increases are applied, and spouses and survivors do not receive this annuity.

The Railroad Retirement Act of 1974 provided that the tier 1 component of the railroad retirement annuity be reduced by any social security benefit. This essentially integrated the two systems and eliminated the advantage of qualifying for benefits under both systems. However, it was generally considered unfair to eliminate this advantage entirely for those already retired or close to retirement. The 1974 Act, therefore, provided for a restoration of social security benefits that were considered vested at the end of 1974. This amount is known as the "vested dual benefit." This benefit was available to qualifying spouses and survivors as well. For employees retiring in 1975 or later, the vested dual benefit was to be equal to a social security benefit based on social security earnings plus a social security benefit based on railroad earnings minus a social security benefit based on combined railroad and social security earnings.

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[1] For the purpose of this discussion and the accompanying tables, all references to the RR Account may be considered references to the combined RR Account and National Railroad Retirement Investment Trust (NRRIT).

The 1981 amendments made significant changes regarding vested dual benefits. Spouses and survivors were no longer to be awarded vested dual benefits, although they would continue to receive them if they were awarded earlier. Also, vested dual benefits would take into account cost-of-living increases only through 1981.

Since October 1981, vested dual benefits have been paid from a segregated Dual Benefits Payments Account, and appropriations have been made to that account. This means that, starting in fiscal year 1982, each annual appropriation is to be sufficient to pay the benefits for that year. If the appropriation for a fiscal year is less than required for full funding, the Railroad Retirement Board must reduce benefits to a level that the amount appropriated will cover.

Financial Status

The Railroad Retirement Board must submit to the President and the Congress a report on the actuarial status of the railroad retirement system. Projections are made for the various components of income and outgo under three employment assumptions.

In considering the actuarial position of the railroad retirement system, it is important to understand the funding of the SSEB Account. The SSEB Account pays the social security level of benefits and administrative expenses allocable to those benefits, and it receives as income the social security level of taxes. If there were no other sources of income or outgo during the course of a year, a surplus or deficiency would build up, depending on whether taxes exceeded or were less than benefits. However, the SSEB Account also receives or pays any financial interchange transfers. The financial interchange transfer, subject to qualifications described below, should be enough to offset any surplus or deficit for the year. Furthermore, this would be the case even if the social security level of benefits or taxes are raised or lowered. The SSEB Account can thus be regarded as automatically funded, the financial interchange being the mechanism for correcting any surplus or deficiency.

The qualification mentioned above arises because, in a relatively small number of cases, the railroad retirement system does not pay benefits when social security would pay benefits. In these cases, mainly dependent children of retired railroad employees, the SSEB Account collects an amount through the financial interchange but does not pay a corresponding benefit. This imbalance between outgo and income is relatively small in any particular year. Beginning in calendar year 2002, the balance of the SSEB Account not needed to pay current benefit and administrative costs will be transferred to the NRRIT.

The SSEB Account must transfer money to the RR Account if (1) the balance in the RR Account is insufficient to enable it to pay benefits and (2) the transfer will not jeopardize the payment of SSEB Account benefits. There is no requirement that these transfers be repaid.

The work-hour tax levied on employers to finance the supplemental annuity program is calculated to be enough to pay benefits on a formula which provides $45 per month, plus $5 per month for each year of service in excess of 25, with a maximum benefit of $70. Supplemental annuities awarded after 1974 are based on a formula which provides $23 per month, plus $4 per month for each year of service in excess of 25, with a maximum benefit of $43. The excess tax is transferred from the RRS Account to the RR Account to finance the increase in costs resulting from the elimination of the reduction in the regular annuity for receipt of a supplemental annuity. This tax has been repealed for calendar years after 2001.

Revenue derived from taxing RR Account benefits (tier 2 and the excess of tier 1 over the social security level) is transferred to the RR Account

Actuarial Position as of January 1, 2001

Table 2 presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2001. The figures in the table are based on the 2001 Section 502 Report extended through calendar year 2075 and updated to reflect the provisions of the Railroad Retirement and Survivors' Improvement Act (RRSIA) of 2001[1]. The present values in the table are based on estimates of contributions and expenditures through the year 2075. The estimates include contributions and expenditures related to future new entrants as well as to former and present railroad employees. The present values are computed on the basis of economic and demographic assumptions and employment assumption II, as used in the 2001 Section 502 Report, with the exception of the use of an 8% interest rate for discounting cash flows beginning in calendar year 2002. (The increase in interest rate from 6% to 8% follows from the expanded investment authority provided under the RRSIA.) Under employment assumption II, starting with an average 2000 employment of 246,000, (1) railroad passenger employment would remain level at 46,000, and (2) the employment base, excluding passenger employment, would decline at a constant annual rate of 3.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

[1] See pages 25 and 26 for a summary of the major provisions of the Railroad Retirement and Survivors' Improvement Act of 2001.

Table 1. Trends in Factors Affecting Railroad Retirement Financing

		1989	1992	1995	1998
Trends in factors affecting revenues					
Taxable wage base for coverage					
Tier 1		$48,000	$55,500	$61,200	$68,400
Tier 2		35,700	41,400	45,300	50,700
Tax contribution rates					
Tier 1[a]	employers	7.51%	7.65%	7.65%	7.65%
	employees	7.51%	7.65%	7.65%	7.65%
Tier 2	employers	16.10%	16.10%	16.10%	16.10%
	employees	4.90%	4.90%	4.90%	4.90%
Trends in factors affecting outlays					
Number of beneficiaries[b] (000's)		912	865	801	729
Retirees		322	304	277	248
Spouses		222	215	199	178
Survivors of deceased workers		297	277	256	232
Disabled workers		82	79	79	79
Average number of workers (000's)		308	276	265	256
Retirement age:					
(30+ years of service)					
Tier 1					
Full benefits		62 years	62 years	62 years	62 years
Reduced benefits		60 years	60 years	60 years	60 years
Tier 2					
Full benefits		60 years	60 years	60 years	60 years
(10-29 years of service)					
Full benefits		65 years	65 years	65 years	65 years
Reduced benefits		62 years	62 years	62 years	62 years

[a] Beginning in 1991 the portion of the tier 1 rate equal to the social security HI rate may apply to earnings in excess of the above listed tier 1 limits.

[b] Unduplicated number in force as of June 30.

Table 2. Statement of Social Insurance
Railroad Retirement Program Actuarial Surplus or (Deficiency) [a,b]
under Employment Assumption 2
75-Year Projection as of January 1, 2001
(Present values in millions of dollars)

Estimated future income[c] received from or on behalf of:		
Former employees and dependents	$	56,673
Current employees and dependents		57,006
Future employees and dependents		28,651
All participants	$	142,329
Estimated future expenditures[d]:		
Former employees and dependents	$	80,616
Current employees and dependents		67,292
Future employees and dependents		12,905
All participants	$	160,813
Estimated future excess of income over expenditures	$	(18,484)
Actuarial asset value		19,251
Estimated future excess[e] of income and trust fund assets at start of period over expenditures	$	767

[a] Represents combined values for the Railroad Retirement Account, Social Security Equivalent Benefit Account and Railroad Retirement Supplemental Account.

[b] The data used reflect the provisions of the Railroad Retirement and Survivors' Improvement Act (RRSIA) of 2001. Comparable data for prior years is not available and would not be meaningful.

[c] Future income includes tier 1 taxes, tier 2 taxes, supplemental annuity taxes, income taxes on benefits, financial interchange income, advances from general revenues and repayments of advances from general revenues. The calculations assume that all future transfers required by current law under the financial interchange will be met.

[d] Future expenditures include benefit and administrative costs.

[e] A closed group estimate using the projected tax rates under employment assumption 2 may be obtained by excluding amounts for "Future employees and dependents" listed above.

Note: Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2000, whereas present values are as of 1/1/2001.